

iwoca Ltd - £10M Grant

CIF Key Achievements to Date

- Following additional market research we conducted with customers and distribution partners on our No PG loan offering, we have now built an MVP which we are using to enable us to offer CBILS loans, ensuring we can support more small businesses who have been affected by the Covid-19 pandemic.
- After building a dedicated product team, we have made rapid progress on the development of our iwocaPay product and launched a pilot version ahead of schedule in early Q1. We onboarded five sellers to trial the new product, helping us to test our systems and processes. We successfully funded our first seller on 28th February and are continuing to make iwocaPay available to a growing list of sellers, offering more than £60,000 to small businesses to date.
- We have now built a dedicated Open Lending development team and have been completing enabling work on our platform. In addition, our OpenLending offering has been well received in the market and as of the date of our latest report we have 7 new partners fully live and operational offering iwoca loans through our platform.
- We have established a joint iwoca and Xero team who are applying a robust and customer-led approach to investigate how best to connect small businesses who require finance to the right solutions within the Xero software. In Q1 2020, we kicked off the research and concept-development phase of our partnership. Using a qualitative approach, we carried out in-depth interviews with Xero customers to understand how they think about finance in relation to their business, their financial decision-making, and their Xero user experience. In March, using our market research and customer insights, we developed six concepts that address a specific barrier preventing SMEs from easily accessing finance and/or managing cash flow. We are currently testing these early-stage concepts with Xero customers and planning the next phase of solution development.
- We opened our regional office in Leeds in February and so far have hired 14 new employees, across both our Leeds and London offices.

Assessment Period 2 (January 1st, 2020 – March 31st, 2020)

We are pleased to report that our current progress is consistent with the business case we submitted to Banking Competition Remedies Ltd (BCR) as part of our application to the Capability and Innovation Fund (CIF) in June 2019. We remain on track to deliver our public commitments, with an update provided on each of these below.

A note on Covid-19: Prior to the Covid-19 lockdown in the UK, iwoca had a strong start to the year in January and February. Given that we have now started to feel the full impact of the lockdown on both ourselves and the small businesses that we serve, the next quarter is more uncertain. We remain focused on our mission to provide our customers with the finance they need during this time, helping

them to bridge cash flow gaps and plan for the future, whilst still ensuring that we are lending responsibly. We are doing everything we can to gain accreditation to the CBILS scheme and work with the BBB to provide solutions that support small businesses through this crisis. We will continue to deliver on our long-term commitments made to BCR as we strongly believe that improving access to finance is critical to the success of small businesses, both during and beyond the Covid-19 crisis.

COMMITMENT 1: SERVE A WIDER RANGE OF SME NEEDS BY INTRODUCING A NEW LOAN PRODUCT THAT DOES NOT REQUIRE A PERSONAL GUARANTEE

Personal guarantees play an important role in enabling finance for early-stage businesses. However, as businesses evolve, their financing options should follow suit.

With the support of the CIF, we will leverage our award-winning technology and risk expertise to develop a new product that does not require a personal guarantee. We will use an asset debenture structure to break the link between business and personal credit. We will also make it paperless and deliver a decision in hours rather than weeks or months.

We commit to ensure this product is more competitive than unsecured market alternatives. We further commit that it will be available across our channels by Q1 2021, by the end of 2023 we aim to have originated £250 million.

This commitment is on track. We accelerated development this quarter, with a no personal guarantee loan pilot ready to test in the market. In light of Covid-19, we recognise the critical importance of the development of our no personal guarantee loan as a mechanism to help businesses. Therefore, we have allocated all available resources to focus on releasing this product. We are working with the BBB to become an accredited CBILS lender and, if successful, we will offer business loans without a personal guarantee to eligible SMEs.

COMMITMENT 2: LAUNCH IWOCAPAY, A BETTER ALTERNATIVE TO FACTORING FOR SMALL BUSINESSES

70% of our customers have used our credit facility to finance the gap between issuing an invoice and receiving or making payment. By introducing iwocaPay, we will take our financing solution to where small businesses need it most: finance at the point of invoice. Through iwocaPay, we will alleviate the burden of late payments which impacts millions of UK SMEs.

iwocaPay creates a win-win credit service for small business sellers and buyers. It will provide SME sellers with the option to extend flexible payment terms to SME buyers while getting paid immediately. This means that iwocaPay enables buyers to choose the payment terms that work best for their cash flow, up to 90 days post invoice receipt, while guaranteeing prompt payment to the seller on a non-recourse basis.

We commit to making iwocaPay a more competitive and accessible alternative to factoring for SMEs and available on a 'single invoice' basis, maximising the product's flexibility. We further commit to launching iwocaPay in Q2 2020, by the end of 2023 we aim to have financed 40,000 transactions.

We have continued to make good progress on developing iwocaPay in Q1. We deployed a pilot version to a limited number of sellers, and successfully funded our first transaction through iwocaPay. We have increased our efforts to make the pilot available to more suppliers during the Covid-19 crisis to help support businesses with outstanding invoices. While still in the pilot phase, we remain confident that we will have a fully operational product by the end of Q2.

COMMITMENT 3: CO-DEVELOP CUSTOMISED CREDIT PRODUCTS WITH XERO, THE UK'S LEADING SME ONLINE ACCOUNTING SOFTWARE PLATFORM

To bring finance to 463,000 Xero subscribers, with the support of the CIF, a joint development team of Xero and iwoca staff will research, prototype and pilot iwoca lending products for Xero. These customised products will be seamlessly embedded and accessible within Xero’s interface and core customer journeys—a first for Xero.

Our shared aim is to deploy a competitive range of lending products that will be easily accessible by Xero’s 463,000 SME subscribers by the end of Q2 2021.

This commitment remains on track. In January, we began the research and concept-development phase of our partnership with Xero. This phase relies on qualitative research techniques to deepen our understanding of how SMEs think about finance in relation to their business and when using Xero. Through this process, we developed six early-stage concepts and in Q2, we will be further refining a subset of these concepts into prototypes.

COMMITMENT 4: LAUNCH OPENLENDING TO FACILITATE THE EXPANSION OF SME FINANCING SOLUTIONS THROUGH THE ENTIRE ECOSYSTEM

We strongly believe in the benefits of a connected and cooperating marketplace. In fact, thousands of customers have reached us via bespoke API integrations with selected partners like Tide.

OpenBanking has been a game-changer for us and, looking ahead, we see a huge opportunity in OpenFinance—the most recent initiative by the Bank of England to establish a data standard and portable digital identity for SMEs.

In this spirit, with the support of the CIF, we will launch OpenLending, a self-serve platform that opens up our lending stack to the entire ecosystem of BCA providers, FinTechs, brokers, accountants and bookkeeping platforms.

We will establish a dedicated full stack team that will make OpenLending fully operational. We will build features that enable partners to customise products, such as term, price or commission. Through customisation, our partners will create and deliver a proliferation of new products that are relevant and accessible to their SME customers.

We commit to launch OpenLending by the end of 2020. By the end of 2021, we commit to integrating 10 new partners including our pilot with Xero; and by the end of 2023, we commit to having at least 25 new partners and aim to originate at least £400 million through OpenLending.

This commitment remains on track. Alongside further hiring, we have made technical improvements to our current Lending API, which will enable us to support product customisation in future. This will form the basis of our bespoke self-serve platform which we will begin to develop in Q2. In addition, our OpenLending offering has been well received in the market and as of the date of this report we have 7 new partners fully live and operational offering iwoca loans through our platform.

COMMITMENT 5: DECENTRALISE TO BETTER SUPPORT OUR GEOGRAPHICALLY DIVERSE CUSTOMER BASE

Underpinning our commitments is our persistent dedication to service. As we grow and reach new SMEs, we must ensure new customers receive the same level of service we have provided since day one. To do this, we must grow and tap into talent pools beyond London.

We focus on serving all UK SMEs and 79% of our current customers reside outside of London.

To better serve our customers, we commit to opening a regional office in Glasgow, Edinburgh, Leeds or Bristol and hiring at least 50 staff by 2023. New staff will cover a range of roles, including developers, customer support and relationship managers.

We are pleased to report that a key milestone in this commitment has now been met, with the opening of our regional office in Leeds in Q1. We have continued to hire across both the Leeds and London offices, with a total of 14 hires made to date. Although we have temporarily slowed hiring due to Covid-

19, we have several new starters in the pipeline for Q2 and remain confident we will be able to meet our hiring targets by 2023.

COMMITMENT 6: MATCH BCR GRANT WITH AT LEAST £13 MILLION OF OUR OWN FUNDS

To demonstrate our shared responsibility and deliver on our commitments, we commit to provide at least £13 million of our own funds.

We continue to uphold our commitment to invest an additional £13m funds on top of the CIF grant. We have matched all funds spent to date, to support the continued development of our programme.